

- 1) Why should this facility be limited to non-profit making firms? Is this setting a precedent for promoting one particular type of economic organization at the expense of another?

This proposal is aimed at fostering only consumer cooperatives because the government already promotes profit making firms through the Department of Commerce, SBA, and a number of other agencies. The SBA has discriminated in favor of a particular kind of economic organization by refusing to lend to non-profit making firms. Credit facilities for cooperatives were established for rural areas when banks refused to lend to farm cooperatives, and have proven quite successful. This program seeks to apply the model which has worked so well in rural areas to the cities. The farm programs were no more narrowly focused than this proposal. The Farm Credit System lends to producer cooperatives generally and the Consumer Cooperative Bank will lend to consumer cooperatives generally.

- 2) Is this program another SBA? Why shouldn't it have the same problems which plague other government agencies?

Consumer cooperatives could have asked just for the authority to obtain loans from SBA. The alternative embodied in this legislation was quite deliberately chosen. This bill is modelled after the Farm Credit System. The Bank is initially capitalized with Treasury "seed money," which is eventually repaid in its entirety. After the initial capitalization of the Bank, the Bank will obtain its funds through the sale of its bonds on the private capital markets. There the Bank will have to compete with other capital needs in the marketplace and without advantage. The Federal Government is not a guarantor of the bonds of the Bank.

The bill was modelled after the Farm Credit System because that program successfully accomplished its goal: the development of rural cooperatives for producers. This achievement is significantly due to the fact that the cooperatives eventually take over complete control and ownership of the Bank, once they repay the Treasury. Since the cooperatives have a stake in the ownership of the Bank, honest, competent and efficient administration of the institution is encouraged. The record of SBA or the housing programs in HUD indicate that these qualities are difficult to achieve under past structures. And, from the government's point of view, a program which creates a private sector institution is advantageous because there is no permanent drain on the Federal Budget as with a public agency.

- 3) Has the need for this Bank been proven?

The Treasury's major position was based on a refusal to accept the asserted need for this legislation without additional evidence. An interesting double standard is at work here: If the Small Business Administration is still needed for profit-making small business, there is an even greater need for cooperatives in urban and rural environments under economic stress and often abandoned by retail firms. Since the Treasury does not believe that the SBA should be dissolved, what standard of proof is it requiring of this legislation? Numerous

examples of discrimination against cooperatives have been given to the committee. How does one explain the refusal of any commercial bank to lend \$600,000 to the Berkeley Cooperative when it had over 60,000 family members, nearly \$4 million in equity capital, and did over \$80 million in sales. Since Berkeley is as successful as any consumer cooperative, can it be reasonably concluded that cooperatives are adequately served by commercial lenders? Msgr. Geno Baroni, Assistant Secretary of HUD testified at hearings on this legislation by the House Banking Committee.

"We have a lot of experience in the rural co-ops, we have a lot of experience, and I think that there is a fantastic need in our urban areas...I started a committee and I didn't call it co-op because of the bias against co-ops, I didn't call it consumer, I called it an economic development capitalization committee which sounded like a Wall Street name... My experience has been a fantastic bias against co-ops of any kind ... which is self-fulfilling to the degree that people themselves say, "What will the banks say? What will they think?"

4) Will this legislation harm already existing small business?

Since our economy relies upon competition for its strength, small business should not complain about increased competition from consumer cooperatives as a result of this legislation. Only if the competition is "unfair" would the small business have a legitimate complaint. This legislation mandates the Bank not to lend at subsidized interest rates. Therefore, cooperatives have no competitive advantage over small business. (The Self Help Development Fund is a small aspect of this program which can subsidize loans. However, loans by the Fund will be made generally in areas hardest hit by disinvestment where there is little business activity of any kind.)

Cooperatives are not nearly as easy to organize as a profit-making firm and usually are inspired by the inability of producers to satisfy consumer needs. Should consumers have to tolerate high prices or inadequate service because financing is unavailable? Small business already has a government agency (as well as a committee of Congress) to promote its interests and last year the SBA had over \$7 billion in loans outstanding. The scope of this legislation is much broader than the small business retailers who have voiced most of the fears (and the grocery chains who have expressed those fears for them). This bill will have its greatest impact in the area of housing, medical and legal services, repair stores, etc.

Small business can benefit from this program. Cooperatives aid in the redevelopment of our cities and rural areas. Small business in these areas will share in this economic growth. (See question 7.)

5) Is this program expensive?

Each year, billions of dollars of loans, loan guarantees, and subsidies are extended to many producer groups by federal agencies. Unlike the Co-op Bank concept, many of these programs are disbursements without any requirement of repayment, much less evidence of how these tax revenues were used by the private sector. The Small Business Administration currently drains the federal government by over \$150 million each year, for example.

Cooperatives also have the potential to reduce Federal spending. Msgr. Geno Baroni, Assistant Secretary of Housing and Urban Development, pointed out that public housing completely paid for by the government has often failed, and there are times when recently built projects have been torn down. Baroni said that loans made to cooperatives could replace these grant programs and result in a savings to the government because the government outlay would be repaid. Since the beneficiaries of the program would feel a direct stake in controlling it, the program would also be more likely to succeed. Baroni is not alone in his assessment that the government promotion of co-ops would save taxpayers money. New York State Assemblyman Andrew Stein released a report last year which concluded that Medicaid cooperatives would save the state \$700 million annually.

6) Will this legislation duplicate existing bureaucracy?

This argument is based upon the false premise that an existing agency caters to consumer cooperatives. The only existing programs for cooperatives are in the housing area, and the impact of these is greatly exaggerated. In fact, HUD has only one person working part-time on housing cooperatives and fewer than 350 units of housing cooperative were built in 1976. Nonetheless, Congressman St. Germain will offer an amendment to H.R. 2777 to eliminate any duplication between the Bank and HUD.

7) How do consumer cooperatives aid in urban and rural reconstruction?

This proposal is unique among urban and rural renewal programs because as a precondition for the bank making a loan, the community must be organized into a cooperative. This community level of organization is in contrast to other federal programs which heap money on developers, builders, and banks with little assurance that the stated objectives will be met. There is too remote a gap, as the record shows, between these companies and the people who live in the community to be assisted.

Cooperatives are a primary mission of the U.S. aid programs overseas. Yet the federal government has done nothing to help co-ops help themselves to develop at home. Consumer co-ops have already made substantial contributions to European economies. Over half of the households in Sweden belong to co-ops and two food co-ops in Switzerland account for half of the retail food sales in that country. The provincial government of Quebec has proposed legislation to create a cooperative development corporation because it also recognized that cooperative growth is restricted by hostility from commercial lenders.

Cooperatives have one other advantage over other profit-making firms like chain stores, as a tool for community development. Consumer co-ops rebate their income back to their members. As a result, that income is retained in the community providing capital for future development. Alternatively chain stores ship a portion of their profits to wherever their headquarters and shareholders happen to be, which certainly is not the innercity. Because local stores are not owned cooperatively, the community can lose a sizable amount, over \$200,000 according to papers presented to the Metropolitan Council of Governments.

8) Do consumer cooperatives save consumers money?

By adding a competitive force to the marketplace, co-ops can aid the fight against inflation. Swedish cooperatives have successfully reduced the prices on a range of goods from lightbulbs to margarine, sometimes by over one-half. In this country, there are numerous examples of cooperatives fighting inflation. Safeway stores located near the Berkley Co-op in California price their milk lower than those located near chain stores. Group Health Cooperative of Puget Sound provides health care at under sixty percent of the national average cost per person. Cooperative funeral and memorial societies charge up to 75% less than profit-making funeral homes. Co-op Optical Services in Detroit sell glasses one-third cheaper than competitors and charge about half as much as competitors for examinations. Detroit housing cooperatives rent apartments for one-third the price of comparable shelter.

9) Are cooperatives feasible only near universities?

A common stereotype of cooperatives is that they are organized and run by college students who are willing to volunteer their time or pay higher prices in exchange for more natural food. While such stores certainly exist, they are not characteristic of the entire cooperative movement. The Berkeley Cooperative is often thought to reflect the stereotype when, in fact, the Co-op has more than 60,000 family members and has expanded well beyond the college community into a number of innercity locations in the San Francisco area. The Puget Sound Health Cooperative, Cooperative Services of Detroit, and Mid Eastern Cooperatives of New Jersey are a few examples of successful cooperatives in health, housing, and food which have no relationship to college communities. In his statement to the Banking Committee, Father Baroni listed some of the groups he had worked with to start co-ops, none of which were dependent upon students: working class Polish Italians, and Blacks in Hartford, Conn; a Puerto Rican group in Springfield Mass; and others in Cumberland, County, Pa., San Antonio, Texas, Appalachia, and Boot Hill in Arkansas.

10) Is the "pilot program" proposed by the Administration going to provide fair or reliable information relevant to this legislation?

The Treasury Department's suggested "pilot program", structured as a conventional loan program instead of a self-help, conversion to cooperative ownership as is the Co-op Bank, would be unable to produce any better quality of evidence than is now available to common observation. The creation of another government administered program was deliberately avoided by the designers of this proposal. Establishing this program within a government agency is like creating a "pilot project" for peanut growing in the Rocky Mountains. The project is doomed to failure before it even begins.